OHIO VALLEY BANC CORP
Form 10-Q
May 10, 2013

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 0-20914

OHIO VALLEY BANC CORP.
(Exact name of registrant as specified in its charter)

Ohio	31-1359191
(State of Incorporation)	(I.R.S. Employer Identification No.)

420 Third Avenue Gallipolis, Ohio	45631
(Address of principal executive offices)	(ZIP Code)

(740) 446-2631
(Issuer's telephone number, including area code)

____

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of common shares of the registrant outstanding as of April 30, 2013 was 4,062,204.

OHIO VALLEY BANC CORP.
Index

2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OHIO VALLEY BANC CORP.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	March 31, 2013 UNAUDITED	December 31, 2012
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 9,842	$ 10,617
Interest-bearing deposits with banks	105,530	35,034
Total cash and cash equivalents	115,372	45,651
Securities available for sale	99,515	94,965
Securities held to maturity (estimated fair value: 2013 - $24,520; 2012 - $24,624)	23,496	23,511
Federal Home Loan Bank stock	6,281	6,281
Total loans	551,274	558,288
Less: Allowance for loan losses	(6,672)	(6,905)
Net loans	544,602	551,383
Premises and equipment, net	8,567	8,680
Other real estate owned	3,371	3,667
Accrued interest receivable	2,033	2,057
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	24,587	25,056
Other assets	5,817	6,705
Total assets	$ 834,908	$ 769,223
LIABILITIES		
Noninterest-bearing deposits	$ 212,707	$ 139,526
Interest-bearing deposits	509,665	515,538
Total deposits	722,372	655,064
Other borrowed funds	14,452	14,285
Subordinated debentures	8,500	13,500
Accrued liabilities	11,030	10,554
Total liabilities	756,354	693,403
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 4,721,943 shares issued)	4,722	4,722

Additional paid-in capital	34,109	34,109
Retained earnings	53,911	51,094
Accumulated other comprehensive income	1,524	1,607
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	78,554	75,820
Total liabilities and shareholders' equity	$ 834,908	$769,223

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(dollars in thousands, except per share data)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Interest and dividend income:		
Loans, including fees	$8,917	$9,964
Securities:		
Taxable	300	426
Tax exempt	144	145
Dividends	67	71
Other Interest	52	59
	9,480	10,665
Interest expense:		
Deposits	839	1,374
Other borrowed funds	81	125
Subordinated debentures	139	254
	1,059	1,753
Net interest income	8,421	8,912
Provision for loan losses	31	1,316
Net interest income after provision for loan losses	8,390	7,596
Noninterest income:		
Service charges on deposit accounts	424	450
Trust fees	51	49
Income from bank owned life insurance and annuity assets	631	194
Mortgage banking income	137	97
Electronic refund check / deposit fees	2,105	2,038
Debit / credit card interchange income	452	395
Gain (loss) on other real estate owned	(65)	8
Other	205	248
	3,940	3,479
Noninterest expense:		
Salaries and employee benefits	4,439	4,268
Occupancy	394	402
Furniture and equipment	226	237
FDIC insurance	144	291
Data processing	281	279
Foreclosed assets	295	110
Other	2,169	1,745
	7,948	7,332
Income before income taxes	4,382	3,743
Provision for income taxes	1,159	1,121

NET INCOME	$3,223	$2,622
Earnings per share	$.79	$.65

OHIO VALLEY BANC CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Net Income	$3,223	$2,622
Other comprehensive income (loss):		
Change in unrealized gain on available for sale securities	(126)	158
Related tax (expense) benefit	43	(54)
Total other comprehensive income (loss), net of tax	(83)	104
Total comprehensive income	$3,140	$2,726

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (UNAUDITED)
(dollars in thousands, except share and per share data)

	Three months ended March 31, 2013	2012
Balance at beginning of period	$ 75,820	$ 71,843
Net income	3,223	2,622
Other comprehensive income (loss), net of tax	(83)	104
Proceeds from issuance of common stock through dividend reinvestment plan	----	55
Cash dividends	(406)	(845)
Balance at end of period	$ 78,554	$ 73,779
Cash dividends per share	$ .10	$ .21

6

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Three months ended March 31, 2013	2012
Net cash provided by operating activities:	$4,759	$4,218
Investing activities:		
Proceeds from maturities of securities available for sale	7,989	6,775
Purchases of securities available for sale	(13,089)	(12,376)
Proceeds from maturities of securities held to maturity	351	887
Purchases of securities held to maturity	(353)	(835)
Net change in loans	6,560	23,928
Proceeds from sale of other real estate owned	421	41
Purchases of premises and equipment	(87)	(124)
Purchases of bank owned life insurance	(149)	(1,274)
Proceeds from bank owned life insurance	1,249	----
Net cash provided by investing activities	2,892	17,022
Financing activities:		
Change in deposits	67,308	48,227
Proceeds from common stock through dividend reinvestment plan	----	55
Cash dividends	(406)	(845)
Repayment of subordinated debentures	(5,000)	----
Proceeds from Federal Home Loan Bank borrowings	353	----
Repayment of Federal Home Loan Bank borrowings	(185)	(203)
Net cash provided by financing activities	62,070	47,234
Change in cash and cash equivalents	69,721	68,474
Cash and cash equivalents at beginning of period	45,651	51,630
Cash and cash equivalents at end of period	$115,372	$120,104
Supplemental disclosure:		
Cash paid for interest	$1,440	$2,191
Cash paid for income taxes	----	820
Transfers from loans to other real estate owned	190	207
Other real estate owned sales financed by the Bank	67	37

7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The accompanying consolidated financial statements include the accounts of Ohio Valley Banc Corp. ("Ohio Valley") and its wholly-owned subsidiaries, The Ohio Valley Bank Company (the "Bank"), Loan Central, Inc. ("Loan Central"), a consumer finance company, and Ohio Valley Financial Services Agency, LLC ("Ohio Valley Financial Services"), an insurance agency. Ohio Valley and its subsidiaries are collectively referred to as the "Company". All material intercompany accounts and transactions have been eliminated in consolidation.

These interim financial statements are prepared by the Company without audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at March 31, 2013, and its results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2013. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by U.S. generally accepted accounting principles ("US GAAP") that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2012 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2012 have been reclassified to conform to the presentation for 2013. These reclassifications had no effect on the net results of operations or shareholders' equity.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: The accounting and reporting policies followed by the Company conform to US GAAP. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Areas involving the use of management's estimates and assumptions that are more susceptible to change in the near term involve the allowance for loan losses, mortgage servicing rights, deferred tax assets, the fair value of certain securities, the fair value of financial instruments and the determination and carrying value of impaired loans and other real estate owned.

INDUSTRY SEGMENT INFORMATION: Internal financial information is primarily reported and aggregated in two lines of business, banking and consumer finance.

EARNINGS PER SHARE: Earnings per share are computed based on net income divided by the weighted average number of common shares outstanding during the period. The weighted average common shares outstanding were 4,062,204 for the three months ended March 31, 2013 and 4,027,950 for the three months ended March 31, 2012. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS:

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02). ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The effect of adopting ASU 2013-02 did not have a material effect on the Company's financial statements.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of the Company's valuation methodologies used to measure and disclose the fair values of its financial assets and liabilities on a recurring or nonrecurring basis:

Securities: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with management's own assumptions of fair value based on factors that include recent market data or industry-wide statistics. On an as-needed basis, the Company reviews the fair value of collateral, taking into consideration current market data, as well as all selling costs that are typically in the range of 10%.

Assets and Liabilities Measured on a Recurring Basis
Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at March 31, 2013, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 9,014	----
Agency mortgage-backed securities, residential	----	90,501	----

	Fair Value Measurements at December 31, 2012, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 1,012	----
Agency mortgage-backed securities, residential	----	93,953	----

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

Assets and Liabilities Measured on a Nonrecurring Basis
There were no assets or liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 2013. Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2012 are summarized below:

	Fair Value Measurements at December 31, 2012, Using		
	Quoted Prices in	Significant Other	Significant Unobservable

	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Assets:			
Other real estate owned:			
Commercial real estate:			
Construction	----	----	$ 1,562
Commercial and industrial	----	----	1,055

At March 31, 2013 and December 31, 2012, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $1,979, with a corresponding valuation of $1,979. This resulted in no additional charge-offs during the three months ended March 31, 2013. Furthermore, a net increase of $2,479 in fair value was recognized for partial charge-offs of loans and impairment reserves on loans during the year ended December 31, 2012.

At March 31, 2013, there was no other real estate owned measured at fair value less costs to sell, which resulted in no valuation allowance and no corresponding write-downs during the three months ended March 31, 2013. Other real estate owned that was measured at fair value less costs to sell at December 31, 2012 had a net carrying amount of $2,617, which is made up of the outstanding balance of $4,214, net of a valuation allowance of $1,597 at December 31, 2012, which resulted in a corresponding write-down of $331 for the year ended December 31, 2012.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2012:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Other real estate owned:					
Commercial real estate:					
Construction	$ 1,562	Sales approach	Adjustment to comparables	15 %	15 %
Commercial and industrial	1,055	Sales approach	Adjustment to comparables	15 %	15 %

The carrying amounts and estimated fair values of financial instruments at March 31, 2013 and December 31, 2012 are as follows:

	Carrying Value	Fair Value Measurements at March 31, 2013 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$115,372	$115,372	$----	$----	$115,372
Securities available for sale	99,515	----	99,515	----	99,515
Securities held to maturity	23,496	----	11,491	13,029	24,520
Federal Home Loan Bank stock	6,281	N/A	N/A	N/A	N/A
Loans, net	544,602	----	----	555,582	555,582
Accrued interest receivable	2,033	----	368	1,665	2,033
Financial liabilities:					
Deposits	722,372	212,624	511,376	----	724,000
Other borrowed funds	14,452	----	14,563	----	14,563
Subordinated debentures	8,500	----	4,884	----	4,884
Accrued interest payable	996	3	993	----	996

	Carrying Value	Fair Value Measurements at December 31, 2012 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$45,651	$45,651	$----	$----	$45,651
Securities available for sale	94,965	----	94,965	----	94,965
Securities held to maturity	23,511	----	11,569	13,055	24,624
Federal Home Loan Bank stock	6,281	N/A	N/A	N/A	N/A
Loans, net	551,383	----	----	564,059	564,059
Accrued interest receivable	2,057	----	283	1,774	2,057
Financial liabilities:					
Deposits	655,064	139,526	517,680	----	657,206

Other borrowed funds	14,285	----	14,536	----	14,536
Subordinated debentures	13,500	----	10,146	----	10,146
Accrued interest payable	1,377	2	1,375	----	1,377

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Securities Held to Maturity: The fair values for securities held to maturity are determined in the same manner as securities held for sale and discussed earlier in this note. Level 3 securities consist of nonrated municipal bonds and tax credit (“QZAB”) bonds.

Federal Home Loan Bank stock: It is not practical to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

Loans: Fair values of loans are estimated as follows: The fair value of fixed rate loans is estimated by discounting future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposit Liabilities: The fair values disclosed for noninterest-bearing deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Other Borrowed Funds: The carrying values of the Company’s short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification. The fair values of the Company’s long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Subordinated Debentures: The fair values of the Company’s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable and Payable: The carrying amount of accrued interest approximates fair value resulting in a classification that is consistent with the earning assets and interest-bearing liabilities with which it is associated.

Off-balance Sheet Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The fair value of commitments is not material.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and estimated fair value of the available for sale and held to maturity securities portfolio at March 31, 2013 and December 31, 2012 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income for available for sale and gross unrecognized gains and losses for held to maturity:

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2013				
U.S. Government sponsored entity securities	$9,034	$8	$(28)	$9,014
Agency mortgage-backed securities, residential	88,172	2,356	(27)	90,501
Total securities	$97,206	$2,364	$(55)	$99,515
December 31, 2012				
U.S. Government sponsored entity securities	$1,009	$3	$----	$1,012
Agency mortgage-backed securities, residential	91,521	2,432	----	93,953
Total securities	$92,530	$2,435	$----	$94,965

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
March 31, 2013				
Obligations of states and political subdivisions	$23,481	$ 1,098	$ (74)	$24,505
Agency mortgage-backed securities, residential	15	----	----	15
Total securities	$23,496	$ 1,098	$ (74)	$24,520
December 31, 2012				
Obligations of states and political subdivisions	$23,494	$ 1,178	$ (65)	$24,607
Agency mortgage-backed securities, residential	17	----	----	17
Total securities	$23,511	$ 1,178	$ (65)	$24,624

The amortized cost and estimated fair value of the securities portfolio at March 31, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay the debt obligations prior to their contractual maturities. Securities not due at a single maturity are shown separately.

	Available for Sale		Held to Maturity	
Debt Securities:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$----	$----	$----	$----
Due in over one to five years	5,019	5,011	6,430	6,850
Due in over five to ten years	4,015	4,003	9,172	9,476
Due after ten years	----	----	7,879	8,179
Agency mortgage-backed securities, residential	88,172	90,501	15	15
Total debt securities	$97,206	$99,515	$23,496	$24,520

The following table summarizes the investment securities with unrealized losses at March 31, 2013 and December 31, 2012 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
March 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored entity securities	$ 7,997	$ (28)	$ ----	$ ----	$ 7,997	$ (28)
Agency mortgage-backed securities, residential	5,037	(27)	----	----	5,037	(27)
Total available for sale	$ 13,034	$ (55)	$ ----	$ ----	$ 13,034	$ (55)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
Securities Held to Maturity						
Obligations of states and						
political subdivisions	$2,319	$ (70)	$258	$ (4)	$2,577	$ (74)
Total held to maturity	$2,319	$ (70)	$258	$ (4)	$2,577	$ (74)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2012	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
Securities Held to Maturity						
Obligations of states and						
political subdivisions	$2,018	$ (63)	$260	$ (2)	$2,278	$ (65)
Total held to maturity	$2,018	$ (63)	$260	$ (2)	$2,278	$ (65)

Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality and management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at March 31, 2013 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:	March 31, 2013	December 31, 2012
Residential real estate	$223,552	$226,022
Commercial real estate:		
Owner-occupied	102,116	104,842
Nonowner-occupied	50,879	52,792
Construction	19,270	17,376
Commercial and industrial	58,185	57,239
Consumer:		
Automobile	40,073	41,168
Home equity	18,151	18,332
Other	39,048	40,517
	551,274	558,288
Less: Allowance for loan losses	6,672	6,905
Loans, net	$544,602	$551,383

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2013 and 2012:

March 31, 2013	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					

Beginning balance	$ 1,329	$ 3,946	$ 783	$ 847	$ 6,905
Provision for loan losses	327	(478)	(33)	215	31
Loans charged off	(357)	(2)	----	(437)	(796)
Recoveries	15	278	11	228	532
Total ending allowance balance	$ 1,314	$ 3,744	$ 761	$ 853	$ 6,672

March 31, 2012	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 1,730	$ 3,623	$ 636	$ 1,355	$ 7,344
Provision for loan losses	277	892	(88)	235	1,316
Loans charged-off	(593)	(1,096)	(70)	(519)	(2,278)
Recoveries	77	4	145	239	465
Total ending allowance balance	$ 1,491	$ 3,423	$ 623	$ 1,310	$ 6,847

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of March 31, 2013 and December 31, 2012:

March 31, 2013	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$133	$ 1,979	$ ----	$----	$2,112
Collectively evaluated for impairment	1,181	1,765	761	853	4,560
Total ending allowance balance	$1,314	$ 3,744	$ 761	$853	$6,672
Loans:					
Loans individually evaluated for impairment	$1,112	$ 15,588	$ ----	$219	$16,919
Loans collectively evaluated for impairment	222,440	156,677	58,185	97,053	534,355
Total ending loans balance	$223,552	$ 172,265	$ 58,185	$97,272	$551,274

December 31, 2012	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$128	$ 1,979	$ ----	$----	$2,107
Collectively evaluated for impairment	1,201	1,967	783	847	4,798
Total ending allowance balance	$1,329	$ 3,946	$ 783	$847	$6,905
Loans:					
Loans individually evaluated for impairment	$827	$ 16,354	$ ----	$220	$17,401
Loans collectively evaluated for impairment	225,195	158,656	57,239	99,797	540,887
Total ending loans balance	$226,022	$ 175,010	$ 57,239	$100,017	$558,288

The following table presents information related to loans individually evaluated for impairment by class of loans:

Three months ended March 31, 2013	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	$830	$686	$----	$703	$ 3	$ 3
Commercial real estate:						
Owner-occupied	5,644	5,098	----	5,313	72	72
Nonowner-occupied	7,849	7,049	----	7,052	93	93
Commercial and industrial	422	----	----	----	----	----

Consumer:						
Home equity	219	219	----	220	3	3
With an allowance recorded:						
Residential real estate	426	426	133	423	4	4
Commercial real estate:						
Nonowner-occupied	3,441	3,441	1,979	3,456	41	41
Total	$ 18,831	$ 16,919	$ 2,112	$ 17,167	$ 216	$ 216

Three months ended March 31, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	$1,247	$1,055	$----	$1,070	$7	$6
Commercial real estate:						
Owner-occupied	9,984	9,737	----	7,604	166	143
Nonowner-occupied	3,440	2,293	----	2,458	24	22
Construction	674	395	----	535	5	5
Commercial and industrial	614	329	----	331	10	9
Consumer:						
Automobile	36	36	----	18	1	1
Home equity	220	220	----	110	3	3
With an allowance recorded:						
Commercial real estate:						
Owner-occupied	1,571	1,571	758	996	27	18
Total	$17,786	$15,636	$758	$13,122	$243	$207

Year ended December 31, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	$619	$407	$----	$493	$----	$----
Commercial real estate:						
Owner-occupied	5,528	5,528	----	4,729	338	338
Nonowner-occupied	10,085	8,847	----	4,767	456	456
Commercial and industrial	426	----	----	----	----	----
Consumer:						
Home equity	220	220	----	176	9	9
With an allowance recorded:						
Residential real estate	420	420	128	420	23	23
Commercial real estate:						
Nonowner-occupied	1,979	1,979	1,979	1,132	38	38
Total	$19,277	$17,401	$2,107	$11,717	$864	$864

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees.

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans:

March 31, 2013	Loans Past Due 90 Days And	Nonaccrual

	Still Accruing	
Residential real estate	$287	$2,906
Commercial real estate:		
Owner-occupied	----	1,115
Nonowner-occupied	----	52
Consumer:		
Automobile	9	15
Home equity	100	----
Other	----	5
Total	$396	$4,093

December 31, 2012	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$341	$2,533
Commercial real estate:		
Owner-occupied	----	675
Nonowner-occupied	----	352
Consumer:		
Automobile	11	4
Home equity	----	62
Other	7	----
Total	$359	$3,626

Nonaccrual loans and loans past due 90 days or more and still accruing include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified as impaired loans.

The following table presents the aging of the recorded investment of past due loans by class of loans:

March 31, 2013	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$3,275	$898	$3,096	$7,269	$216,283	$223,552
Commercial real estate:						
Owner-occupied	816	440	675	1,931	100,185	102,116
Nonowner-occupied	----	----	52	52	50,827	50,879
Construction	----	----	----	----	19,270	19,270
Commercial and industrial	180	----	----	180	58,005	58,185
Consumer:						
Automobile	683	145	9	837	39,236	40,073
Home equity	20	----	100	120	18,031	18,151
Other	752	31	5	788	38,260	39,048
Total	$5,726	$1,514	$3,937	$11,177	$540,097	$551,274

December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$5,525	$1,033	$2,797	$9,355	$216,667	$226,022
Commercial real estate:						
Owner-occupied	753	111	675	1,539	103,303	104,842
Nonowner-occupied	----	----	352	352	52,440	52,792
Construction	----	----	----	----	17,376	17,376
Commercial and industrial	202	----	----	202	57,037	57,239
Consumer:						

Automobile	905	138	13	1,056	40,112	41,168
Home equity	112	37	62	211	18,121	18,332
Other	1,066	162	7	1,235	39,282	40,517
Total	$8,563	$1,481	$3,906	$13,950	$544,338	$558,288

Troubled Debt Restructurings:

A troubled debt restructuring (“TDR”) occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. All TDR's are considered to be impaired. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a reduction in the contractual principal and interest payments of the loan; or short-term interest-only payment terms.

The Company has allocated reserves for a portion of its TDR's to reflect the fair values of the underlying collateral or the present value of the concessionary terms granted to the customer.

The following table presents the types of TDR loan modifications by class of loans as of March 31, 2013 and December 31, 2012:

	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
March 31, 2013			
Residential real estate			
Interest only payments	$249	$----	$249
Rate reduction	426	----	426
Commercial real estate:			
Owner-occupied			
Interest only payments	----	675	675
Rate reduction	----	440	440
Maturity extension at lower stated rate than market rate	183	----	183
Reduction of principal and interest payments	3,800	----	3,800
Nonowner-occupied			
Interest only payments	9,825	----	9,825
Reduction of principal and interest payments	665	----	665
Total TDR's	$15,148	$1,115	$16,263

	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
December 31, 2012			
Residential real estate			
Interest only payments	$----	$180	$180
Rate reduction	420	----	420
Commercial real estate:			
Owner-occupied			
Interest only payments	----	675	675
Rate reduction	440	----	440
Maturity extension at lower stated rate than market rate	191	----	191
Reduction of principal and interest payments	4,222	----	4,222
Nonowner-occupied			
Interest only payments	9,856	300	10,156
Reduction of principal and interest payments	670	----	670
Total TDR's	$15,799	$1,155	$16,954

During the three months ended March 31, 2013, the TDR's described above increased the allowance for loan losses by $280, with no corresponding charge-offs. This was largely the result of a $275 recovery of a previously charged-off commercial real estate loan that had been classified as a TDR loan at December 31, 2012. During the year ended December 31, 2012, the TDR's described above increased the allowance for loan losses by $2,169, resulting in charge-offs of $536.

At March 31, 2013, the balance in TDR loans decreased $691, or 4.1%, from year-end 2012. The decrease was largely due to the $300 payoff of one commercial real estate loan and principal payments received on another commercial real estate loan totaling $422 during the first quarter of 2013. At March 31, 2013 and December 31, 2012, a total of 93% of the Company's TDR's were performing according to their modified terms. The Company allocated $2,112 and $2,107 in reserves to customers whose loan terms have been modified in TDR's as of March 31, 2013 and December 31, 2012, respectively. At March 31, 2013, the Company had $116 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, as compared to $109 at December 31, 2012.

The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the three months ended March 31, 2013:

Three months ended March 31, 2013	TDR's Performing to Modified Terms		TDR's Not Performing to Modified Terms	
	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Residential real estate				
Interest only payments	$249	$ 249	$----	$ ----
Total TDR's	$249	$ 249	$----	$ ----

As of March 31, 2013, all of the Company's loans that were restructured during the three months ended March 31, 2013 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at March 31, 2013 that experienced any payment defaults within twelve months following their loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. TDR loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The loans modified during the three months ended March 31, 2013 had no impact on the allowance for loan losses or charge-offs during those three months. As of March 31, 2013, the Company had no allocation of reserves to customers whose loan terms have been modified during the first three months of 2013.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. These risk categories are represented by a loan grading scale from 1 through 10. The Company analyzes loans individually with a higher credit risk rating and groups these loans into categories called “criticized” and “classified" assets. The Company considers its criticized assets to be loans that are graded 8 and its classified assets to be loans that are graded 9 through 10. The Company's risk categories are reviewed at least annually on loans that have aggregate borrowing amounts that meet or exceed $500.

The Company uses the following definitions for its criticized loan risk ratings:

Special Mention (Loan Grade 8). Loans classified as special mention indicate considerable risk due to deterioration of repayment (in the earliest stages) due to potential weak primary repayment source, or payment delinquency. These loans will be under constant supervision, are not classified and do not expose the institution to sufficient risks to warrant classification. These deficiencies should be correctable within the normal course of business, although significant changes in company structure or policy may be necessary to correct the deficiencies. These loans are considered bankable assets with no apparent loss of principal or interest envisioned. The perceived risk in continued lending is considered to have increased beyond the level where such loans would normally be granted. Credits that are defined as a troubled debt restructuring should be graded no higher than special mention until they have been reported as performing over one year after restructuring.

The Company uses the following definitions for its classified loan risk ratings:

Substandard (Loan Grade 9). Loans classified as substandard represent very high risk, serious delinquency, nonaccrual, or unacceptable credit. Repayment through the primary source of repayment is in jeopardy due to the existence of one or more well defined weaknesses and the collateral pledged may inadequately protect collection of the loans. Loss of principal is not likely if weaknesses are corrected, although financial statements normally reveal significant weakness. Loans are still considered collectible, although loss of principal is more likely than with special mention loan grade 8 loans. Collateral liquidation is considered likely to satisfy debt.

Doubtful (Loan Grade 10). Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification. These loans exhibit all substandard characteristics with the addition that weaknesses make collection or liquidation in full highly questionable and improbable. This classification consists of loans where the possibility of loss is high after collateral liquidation based upon existing facts, market conditions, and value. Loss is deferred until certain important and reasonable specific pending factors which may strengthen the credit can be more accurately determined. These factors may include proposed acquisitions, liquidation procedures, capital injection, receipt of additional collateral, mergers, or refinancing plans. A doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded substandard.

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date. As of March 31, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of commercial loans by class of loans is as follows:

March 31, 2013	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	$91,287	$7,803	$3,026	$102,116
Nonowner-occupied	42,990	680	7,209	50,879
Construction	18,200	----	1,070	19,270
Commercial and industrial	49,336	5,105	3,744	58,185
Total	$201,813	$13,588	$15,049	$230,450

December 31, 2012	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	$87,614	$14,057	$3,171	$104,842
Nonowner-occupied	39,627	2,171	10,994	52,792
Construction	16,276	----	1,100	17,376
Commercial and industrial	47,226	4,793	5,220	57,239
Total	$190,743	$21,021	$20,485	$232,249

The Company also obtains the credit scores of its borrowers upon origination (if available by the credit bureau), but the scores are not updated. The Company focuses mostly on the performance and repayment ability of the borrower as an indicator of credit risk and does not consider a borrower's credit score to be a significant influence in the determination of a loan's credit risk grading.

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. Nonperforming loans are defined as loans that are past due 90 days and still accruing or loans that have been placed on nonaccrual. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on repayment activity as of March 31, 2013 and December 31, 2012:

March 31, 2013	Consumer

	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	$40,049	$18,051	$39,043	$220,359	$317,502
Nonperforming	24	100	5	3,193	3,322
Total	$40,073	$18,151	$39,048	$223,552	$320,824

December 31, 2012	Automobile	Consumer Home Equity	Other	Residential Real Estate	Total
Performing	$41,153	$18,270	$40,510	$223,148	$323,081
Nonperforming	15	62	7	2,874	2,958
Total	$41,168	$18,332	$40,517	$226,022	$326,039

The Company, through its subsidiaries, grants residential, consumer, and commercial loans to customers located primarily in the southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 5.05% of total loans were unsecured at March 31, 2013, up from 4.87% at December 31, 2012.

NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The contract amounts of these instruments are not included in the consolidated financial statements. At March 31, 2013, the contract amounts of these instruments totaled approximately $61,269, compared to $57,125 at December 31, 2012. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. Since many of these instruments are expected to expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

NOTE 6 - OTHER BORROWED FUNDS

Other borrowed funds at March 31, 2013 and December 31, 2012 are comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes.

	FHLB Borrowings	Promissory Notes	Totals
March 31, 2013	$ 10,926	$3,526	$14,452
December 31, 2012	$ 10,759	$3,526	$14,285

Pursuant to collateral agreements with the FHLB, advances are secured by $203,773 in qualifying mortgage loans, $96,434 in commercial loans and $6,281 in FHLB stock at March 31, 2013. Fixed-rate FHLB advances of $10,926 mature through 2042 and have interest rates ranging from 1.53% to 3.31% and a year-to-date weighted average cost of 2.24%. There were no variable-rate FHLB borrowings at March 31, 2013.

At March 31, 2013, the Company had a cash management line of credit enabling it to borrow up to $95,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was $95,000 available on this line of credit at March 31, 2013.

Based on the Company's current FHLB stock ownership, total assets and pledgeable loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of $207,282 at March 31, 2013. Of this maximum borrowing capacity, the Company had $173,155 available to use as additional borrowings, of which $95,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 1.15% to 5.00% and are due at various dates through a final maturity date of December 8, 2014. At March 31, 2013, there were no promissory notes payable by Ohio Valley to related parties.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled $23,200 at March 31, 2013 and $14,200 at December 31, 2012.

Scheduled principal payments as of March 31, 2013:

	FHLB Borrowings	Promissory Notes	Totals
2013	$1,161	$1,743	$2,904
2014	1,177	1,783	2,960
2015	1,080	----	1,080
2016	996	----	996
2017	924	----	924
Thereafter	5,588	----	5,588
	$10,926	$3,526	$14,452

NOTE 7 – SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and consumer finance. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments, and deposits provide the majority of the net revenues from the banking operation, while loans provide the majority of the net revenues for the consumer finance segment. All Company segments are domestic.

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 86.8% and 87.8% of total consolidated revenues for the years ended March 31, 2013 and 2012, respectively.

The accounting policies used for the Company's reportable segments are the same as those described in Note 1 - Summary of Significant Accounting Policies. Income taxes are allocated based on income before tax expense.

Information for the Company’s reportable segments is as follows:

	Three Months Ended March 31, 2013		
	Banking	Consumer Finance	Total Company
Net interest income	$7,149	$1,272	$8,421
Provision expense	$(65)	$96	$31
Noninterest income	$3,493	$447	$3,940
Noninterest expense	$7,296	$652	$7,948
Tax expense	$830	$329	$1,159
Net income	$2,581	$642	$3,223
Assets	$821,720	$13,188	$834,908

	Three Months Ended March 31, 2012		
	Banking	Consumer Finance	Total Company

Net interest income	$7,657	$1,255	$8,912
Provision expense	$1,211	$105	$1,316
Noninterest income	$3,065	$414	$3,479
Noninterest expense	$6,727	$605	$7,332
Tax expense	$796	$325	$1,121
Net income	$1,988	$634	$2,622
Assets	$840,691	$13,183	$853,874

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except share and per share data)

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and as defined in the Private Securities Litigation Reform Act of 1995. Such statements are often, but not always, identified by the use of such words as "believes," "anticipates," "expects," and similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control that could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, taxes, the effects of implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 and the continuing economic uncertainty in various parts of the world; competitive pressures; fluctuations in interest rates; the level of defaults and prepayment on loans made by the Company; unanticipated litigation, claims, or assessments; fluctuations in the cost of obtaining funds to make loans; and regulatory changes. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in management's discussion and analysis is available in the Company's filings with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, including the disclosure under the heading "Item 1A. Risk Factors" of Part 1 of the Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2012. Readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. The Company undertakes no obligation and disclaims any intention to republish revised or updated forward looking statements, whether as a result of new information, unanticipated future events or otherwise.

Financial Overview

The Company is primarily engaged in commercial and retail banking, offering a blend of commercial and consumer banking services within southeastern Ohio as well as western West Virginia. The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, floor plan and student loans; the making of construction and real estate loans; and credit card services. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. In addition, the Bank is one of a limited number of financial institutions which facilitates the payment of tax refunds through a third-party tax software provider. The Bank has facilitated the payment of these tax refunds through electronic refund check/deposit ("ERC/ERD") transactions. ERC/ERD transactions involve the issuing of a tax refund to the taxpayer after the Bank has received the refund from the federal/state government. ERC/ERD transactions occur primarily during the tax refund loan season, typically during the first quarter of each year. Prior to 2012, the Bank also offered refund anticipation loans ("RALs") through the same third-party tax software provider. RALs are short-term cash advances against a customer's anticipated income tax refund. The Bank ceased offering RALs effective April 19, 2011, although it still provides ERC/ERD transactions. Loan Central continues to provide RALs to its customers.

For the three months ended March 31, 2013, the Company's net income increased by $601, or 22.9%, as compared to the same period in 2012, to finish at $3,223. The Company's earnings per share for the first quarter of 2013 increased by $.14, or 21.5%, compared to the same period in 2012, to finish at $.79 per share. The annualized net income to average asset ratio, or return on assets (ROA), improved to 1.56% at March 31, 2013, as compared to 1.20% at March 31, 2012. The Company's net income to average equity ratio, or return on equity (ROE), improved to 17.13% at

March 31, 2013, as compared to 14.60% at March 31, 2012.

The largest contributor to the Company's higher 2013 first quarter net income was a $1,285, or 97.6%, decrease in loan loss provision expense. This decrease was the result of lower net charge-offs during the first quarter of 2013, which decreased $1,549, or 85.4%, as compared to the first quarter of 2012. The decrease in net charge-offs was primarily due to additional partial charge-offs of $1,118 taken on various residential real estate and commercial real estate loans in March 2012. The partial charge-offs required a corresponding impairment charge to provision expense due to a continued deterioration of collateral values. In addition, the partial charge-offs taken on these residential real estate and commercial real estate loan balances in March 2012 contributed to an increase in general allocations associated with the average historical loan loss factor within the allowance for loan losses.

Further impacting net income results during the three months ended March 31, 2013 was an increase in the Company's noninterest income of $461, or 13.3%, over the same period in 2012. The growth in noninterest income was largely due to net life insurance proceeds collected in the first quarter of 2013, as well as increased transaction volume related to the Company's ERC/ERD fees, debit and credit card interchange income, and mortgage banking revenue.

Partially offsetting the benefits of lower provision expense and higher noninterest income during the first quarter of 2013 was lower net interest income combined with higher noninterest expenses. The Company's net interest income decreased $491, or 5.5%, during the first quarter of 2013 as compared to the first quarter of 2012. The decrease was impacted mostly from lower average earning assets of $786,219 at March 31, 2013 as compared to $823,271 at March 31, 2012, largely from loans. The Company's noninterest expense increased $616, or 8.4%, during the first quarter of 2013 as compared to the first quarter of 2012. Higher noninterest expense was impacted by increases in foreclosed asset costs related to the liquidation of real estate in process of foreclosure, as well as salaries and employee benefits due to annual merit increases and retirement benefit costs. Further impacting noninterest expense during the first quarter of 2013 was a fee of $212 associated with the redemption of $5,000 in trust preferred securities classified as subordinated debentures in March 2013. While this contributed to the growth in overhead expenses during the first quarter of 2013, the $5,000 redemption in trust preferred securities is anticipated to have a favorable impact on future earnings due to the elimination of $530 in annual interest expense.

The consolidated total assets of the Company increased $65,685, or 8.5%, during the first three months of 2013 as compared to year-end 2012, to finish at $834,908. This change in assets was led by an increase in the Company's interest-bearing deposits with banks, which increased $70,496 from year-end 2012, largely from short-term investments in the Company's Federal Reserve Bank clearing account. During the first quarter of 2013, the Company experienced an increase in tax refund volume related to its ERC/ERD business. These short-term tax refunds, facilitating through several of the Company's noninterest-bearing checking accounts, were invested with its Federal Reserve Bank clearing account, which increased $70,511 from year-end 2012. Asset balances were further increased by growth in the Company's investment securities, which increased $4,535, or 3.8%, from year-end 2012. The Company has invested a portion of its excess funds from investment security prepayments and maturity proceeds into long-term U.S. Government sponsored entity ("GSE") securities during the first quarter of 2013, which increased $8,002 from year-end 2012.

The first three months of 2013 saw the Company's loan portfolio decrease $7,014, or 1.3%, from year-end 2012. This change in loan balances came primarily from the commercial real estate loan portfolio, which decreased $2,745, or 1.6%, from year-end 2012, largely due to increases in loan payoffs recorded during the first quarter of 2013. Further decreasing the Company's loan portfolio were consumer and residential real estate loans, which decreased $2,745 and $2,470, respectively, from year-end 2012. The decreases in consumer loans were largely due to lower auto loan balances, while lower residential real estate loan balances were impacted mostly in longer-term, fixed-rate loans.

While the demand for loans was down during the first three months of 2013, the Company was able to benefit from growth in its total deposit liabilities of $67,308 from year-end 2012. The majority of this growth came from the Company's core noninterest-bearing deposit balances increasing $73,181 from year-end 2012, as a result of an increased level of ERC/ERD transactions being processed during the first quarter of 2013. Interest-bearing deposit liabilities continued to shift into more core

24

deposit sources from year-end 2012, such as the Company's NOW and savings account balances while experiencing a larger shift away from non-core deposit sources such as retail and wholesale time deposits. The Company's core interest-bearing deposit balances were up $10,520 from year-end 2012, while its non-core time deposit balances were down $16,393 from year-end 2012. While other borrowed funds remained relatively the same from year-end 2012, the Company's subordinated debentures decreased $5,000 during the same period, which was due to the redemption of $5,000 in trust preferred securities on March 7, 2013. The redemption supports the Company's continued emphasis on lowering funding costs to strengthen the net interest margin as average earning assets continue to decline. The Company anticipates an annual interest expense savings of $530, most of which will be recognized in 2013.

The retained portion of excess liquidity created by seasonal growth in total deposits will be available to fund potential earning asset growth during the remainder of 2013.

Comparison of
Financial Condition
at March 31, 2013 and December 31, 2012

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at March 31, 2013 compared to December 31, 2012. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Cash and Cash Equivalents

The Company's cash and cash equivalents consist of cash, as well as interest- and non-interest bearing balances due from banks. The amounts of cash and cash equivalents fluctuate on a daily basis due to customer activity and liquidity needs. At March 31, 2013, cash and cash equivalents had increased $69,721, or 152.7%, to $115,372, as compared to $45,651 at December 31, 2012. The increase in cash and cash equivalents was largely due to deposit liability growth combined with increased loan payoffs from year-end 2012. The rise in deposit liability balances was mostly from seasonal increases in ERC/ERD transactions that facilitate within the Company's noninterest-bearing deposit accounts. The Company continues to utilize its interest-bearing Federal Reserve Bank clearing account to maintain these excess funds while loan demand remains challenged. In addition, the Company utilizes its Federal Reserve Bank clearing account to manage both investment security purchases and maturities, as well as to fund maturities of retail and wholesale CD's. The interest rate paid on both the required and excess reserve balances is based on the targeted federal funds rate established by the Federal Open Market Committee, which currently is 0.25%. This interest rate is similar to what the Company would have received from its investments in federal funds sold, currently in a range of less than 0.25%. Furthermore, Federal Reserve Bank balances are 100% secured.

As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely. The Company's focus will be to continue to re-invest these liquid funds in longer-term, higher-yielding assets, such as loans and investment securities, when the opportunities arise. Further information regarding the Company's liquidity can be found under the caption "Liquidity" in this Management's Discussion and Analysis.

Securities

The balance of total securities increased $4,535, or 3.8%, as compared to year-end 2012. The Company's investment securities portfolio consists of GSE investment securities, U.S. Government agency ("Agency") mortgage-backed securities and obligations of states and political subdivisions. During the first quarter of 2013, the Company continued to experience increased cash flows from monthly principal repayments of its agency mortgage-backed securities. The Company invested a portion of these excess funds into new long-term GSE securities, which increased $8,002 from year-end 2012. The Company's investment in new GSE securities increased diversification within the investment securities portfolio, which was comprised mostly of agency mortgage-backed securities, totaling 73.6% of total investment securities at March 31, 2013.

Typically, the primary advantage of agency mortgage-backed securities has been the increased cash flows due to the more rapid monthly repayment of principal as compared to other types of investment securities, which deliver proceeds upon maturity or call date. However, with the current low interest rate environment and loan balances at a declining pace, the cash flow that is being collected is being reinvested at lower rates. Principal repayments from agency mortgage-backed securities totaled $8,340 from January 1, 2013 through March 31, 2013. As a result of increasing principal repayments and reinvestments into GSE securities, the Company’s agency mortgage-backed securities decreased $3,454, or 3.7%, from year-end 2012.

For the remainder of 2013, the Company’s focus will be to generate interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets.

Loans

The loan portfolio represents the Company’s largest asset category and is its most significant source of interest income. During the first three months of 2013, total loan balances decreased from year-end 2012 by $7,014, or 1.3%. Lower loan balances were mostly influenced by the commercial loan portfolio, which includes both commercial real estate and commercial and industrial loans. While commercial loans were down, management continues to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

Commercial real estate, the Company’s largest segment of commercial loans, decreased $2,745, or 1.6%, from year-end 2012. Commercial real estate consists of owner-occupied, nonowner-occupied and construction loans. Commercial real estate also includes loan participations with other banks outside the Company’s primary market area. Although the Company is not actively seeking to participate in loans originated outside its primary market area, it has taken advantage of the relationships it has with certain lenders in those areas where the Company believes it can profitably participate with an acceptable level of risk. Commercial real estate loans were down largely from its owner-occupied portfolio during 2013, which decreased $2,726, or 2.6%, from year-end 2012. This decrease was mostly due to a payoff totaling $1,063 on one owner-occupied commercial real estate loan. Owner-occupied loans consist of nonfarm, nonresidential properties. A commercial owner-occupied loan is a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans of the Company include loans secured by hospitals, churches, and hardware and convenience stores. Nonowner-occupied loans decreased $1,913, or 3.6%, from year-end 2012 in large part due to the larger loan payoffs of three nonowner-occupied loans totaling $2,109. Nonowner-occupied loans are property loans for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property, such as apartment buildings, condominiums, hotels and motels. These loans are primarily impacted by local economic conditions, which dictate occupancy rates and the amount of rent charged. Commercial construction loans, which increased $1,894, or 10.9%, from year-end 2012, are extended to individuals as well as corporations for the construction of an individual property or multiple properties and are secured by raw land and the subsequent improvements.

At March 31, 2013, the Company’s commercial and industrial loan portfolio was up from year-end 2012 by $946, or 1.7%. Commercial and industrial loans consist of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock.

Over half of the Company’s total commercial loan portfolio, including participation loans, consists of rental property loans (28.3% of portfolio), hotel and motel loans (6.9% of portfolio), government & education loans (6.3% of portfolio), church loans (5.4% of portfolio) and construction & remodeling loans (5.4% of portfolio). At March 31, 2013, the primary market areas for the Company’s commercial loan originations, excluding loan participations, were in the areas of Gallia, Jackson and Pike counties of Ohio, which accounted for 78.5% of total originations. The growing West Virginia markets also accounted for 19.3% of total originations for the same time period. While management believes lending opportunities exist in the Company’s markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company’s primary markets, interest rates offered by the Company, the effects of competitive pressure and normal underwriting considerations.

Lower loan balances during 2013 were also influenced by the Company's total consumer loans, which decreased $2,745, or 2.7%, from year-end 2012. The Company's consumer loans are primarily secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The decrease in consumer loans came mostly from the Company's automobile lending portfolio, which decreased $1,095, or 2.7%, from year-end 2012. The automobile lending component comprises the largest portion of the Company's consumer loan portfolio, representing 41.2% of total consumer loans at March 31, 2013. In recent years, growing economic factors have weakened the economy and have limited consumer spending. The Company continues to maintain a strict loan underwriting process on its consumer auto loan offerings to limit future loss exposure. The Company's interest rates offered on indirect automobile opportunities have struggled to compete with the more aggressive lending practices of local banks and alternative methods of financing, such as captive finance companies offering loans at below-market interest rates. The decreasing trend of auto loan balances should continue during 2013.

The remaining consumer loan products not discussed above declined $1,650, or 2.8%, which included general decreases in loan balances from recreational vehicles, mobile homes, home equity lines of credit and unsecured loans.

Generating residential real estate loans remains a significant focus of the Company's lending efforts. Residential real estate loan balances comprise the largest portion of the Company's loan portfolio and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. During the first quarter of 2013, total residential real estate loan balances decreased $2,470, or 1.1%, from year-end 2012. The decrease was mostly from the Company's fixed-rate loans, which declined $6,077, or 4.5%, from year-end 2012. Long-term interest rates continue to remain at historic low levels and have prompted periods of increased refinancing demand for long-term, fixed-rate real estate loans in recent years. Originating long-term fixed-rate real estate loans at such low rates presents interest rate risk. Therefore, to help manage interest rate risk while also satisfying the demand for long-term, fixed-rate real estate loans, the Company has strategically chosen to originate and sell most of its fixed-rate mortgage loans to the secondary market, which allowed its customers to take advantage of low rates. The Company maintains its relationship with the customer by servicing the loan. The customer must qualify to take advantage of a secondary market loan based on various criteria which could limit volume growth. The Company has experienced an increase in refinancing volume which has led to higher secondary market sales in 2013 versus 2012. During the first three months of 2013, a total of 40 loans totaling $4,972 were sold, compared to 37 loans sold totaling $4,717 during the first three months of 2012. The remaining real estate loan portfolio balances increased $3,607, or 4.0%. This increase came primarily from the Company's other variable-rate loan products being offered to its customers as alternative financing options. A customer that may not qualify for a long-term, secondary market loan may choose from one of the Company's other adjustable-rate mortgage products. This has contributed to higher balances of five-year, adjustable-rate mortgages, which were up $6,184, or 18.3%, from year-end 2012. The Company will continue to follow this secondary market strategy until long-term interest rates increase back to a range that falls within an acceptable level of interest rate risk.

The well-documented housing market crisis and other disruptions within the economy have negatively impacted consumer spending, which has continued to limit the lending opportunities within the Company's market locations. Declines in the housing market since 2007, with falling home prices and increasing foreclosures and unemployment, have continued to result in significant write-downs of asset values by financial institutions. To combat this ongoing potential for loan loss, the Company will remain consistent in its approach to sound underwriting practices and a focus on asset quality. The Company anticipates continued challenges to its attempt to grow its loan portfolio in 2013.

Allowance for Loan Losses

Management evaluates the adequacy of the allowance for loan losses quarterly based on several factors, including, but not limited to, general economic conditions, loan portfolio composition, prior loan loss experience, and management's estimate of

probable incurred losses. Management continually monitors the loan portfolio to identify potential portfolio risks and to detect potential credit deterioration in the early stages, and then establishes reserves based upon its evaluation of these inherent risks. Actual losses on loans are reflected as reductions in the reserve and are referred to as charge-offs. The amount of the provision for loan losses charged to operating expenses is the amount necessary, in management's opinion, to maintain the allowance for loan losses at an adequate level that is reflective of probable and inherent loss. The allowance required is primarily a function of the relative quality of the loans in the loan portfolio, the mix of loans in the portfolio and the rate of growth of outstanding loans. Impaired loans, which include loans classified as troubled debt restructurings (“TDR’s”), are considered in the determination of the overall adequacy of the allowance for loan losses.

The struggles of our U.S. economy in recent years have had a direct impact on the Company’s borrowers, as they continue to experience financial difficulties and liquidity strains. The Company is faced with the ongoing decision of whether to foreclose on these troubled loans and take possession of the collateral or to work with the borrower to modify the original terms of the loan. A successful loan modification not only avoids costly foreclosure proceedings but, more importantly, could result in the full repayment of the loan principal amount. The Company continues to monitor and make loan modifications to certain troubled loans that would ease payment pressures on the borrower. Most generally, the modification “period” of the original terms of the loan is only temporary (i.e. 12 months), after which the loan would resume under the original contractual terms of the loan. GAAP and regulatory guidance identifies certain loan modifications that would be classified as TDR’s, which, in general, is when a bank, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the bank would not otherwise consider. One such qualification would be if the bank modified the original terms of the loan for the remaining original life of the debt. Modifications of the original terms would include temporarily adjusting the contractual interest rate of the loan or converting the payment method from principal and interest amortization payments to interest-only for a temporary period of time.

During the first three months of 2013, the Company’s allowance for loan losses decreased $233, or 3.4%, to finish at $6,672 as compared to $6,905 at year-end 2012. This decrease in reserves was largely due to a reduction in general allocations related to economic risk trends, lower net charge-offs and lower loan balances. Management has focused on improving asset quality and lowering credit risk while working to maintain its relationships with its borrowers. As part of the Company’s quarterly analysis of the allowance for loan losses, an improving trend has been identified within its economic risk allocation, which, among other things, accounts for unemployment rates and classified/criticized asset levels. Since year-end 2012, unemployment rates within the Company’s lending markets have decreased, while classified and criticized asset balances have also decreased. The Company has also continued to experience improving trends in lower loan losses associated with net charge-offs during the past 36 months, which have contributed to less required general allocations of the allowance for loan losses. At March 31, 2013, the Company’s annualized ratio of net charge-offs to average loans decreased to 0.19%, as compared to 1.23% at March 31, 2012 and 2.65% at March 31, 2011, primarily within the commercial real estate loan portfolio. In addition, the Company’s total loan portfolio balance decreased $7,014 from year-end 2012, having a direct impact on lower general allocations of the allowance. As a result, these factors contributed to a $238, or 5.0%, decrease in the Company’s total general allocation from year-end 2012.

The Company’s impaired loans decreased $482 from year-end 2012 in large part due to the payoff of one commercial real estate loan totaling $300 and a large principal paydown of $422 on another commercial real estate loan. The portions of impaired loans for which there are specific allocations reflect losses that the Company expects to incur, as they will not likely be able to collect all amounts due according to the contractual terms of the loan. At March 31, 2013, there was $2,112 in specific allocations reserved for expected losses of impaired loans as compared to $2,107 in reserves at year-end 2012. Although impaired loans have been identified as potential problem loans, they may never become delinquent or classified as nonperforming.

The Company experienced a $504 increase in its nonperforming loans from year-end 2012, mostly from within residential and commercial real estate loan portfolios. Nonperforming loans consist of nonaccruing loans and accruing loans past due 90 days or more. Nonperforming loans finished at $4,489 at March 31, 2013, compared to $3,985 at year-end 2012. As a result, the Company's ratio of nonperforming loans to total loans increased from 0.71% at December 31, 2012 to 0.81% at March 31, 2013. Conversely, the Company experienced a lower nonperforming assets to total assets ratio from year-end 2012, decreasing from 0.99% at December 31, 2012 to 0.94% at March 31, 2013. This was largely due to a higher level of total assets at March 31, 2013, which increased $65,685, or 8.5%, from year-end 2012. Approximately 77.6% of nonperforming assets is related to two commercial properties totaling $2,617 that was transferred into other real estate owned during the second quarter of 2008. Both nonperforming loans and nonperforming assets at March 31, 2013 continue to be in various stages of resolution for which management believes such loans are adequately collateralized or otherwise appropriately considered in its determination of the adequacy of the allowance for loan losses.

As a result of lower general allocations of the allowance benefited by improving economic trends, the ratio of the allowance for loan losses to total loans decreased to 1.21% at March 31, 2013, compared to 1.24% at December 31, 2012. Management believes that the allowance for loan losses at March 31, 2013 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

Deposits

Deposits are used as part of the Company's liquidity management strategy to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Deposits, both interest- and noninterest-bearing, continue to be the most significant source of funds used by the Company to support earning assets. The Company seeks to maintain a proper balance of core deposit relationships on hand while also utilizing various wholesale deposit sources, such as brokered and internet CD balances, as an alternative funding source to manage efficiently the net interest margin. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. Total deposits increased $67,308, or 10.3%, to finish at $722,372 at March 31, 2013, resulting mostly from a net increase in the Company's "core" deposit balances that included interest-bearing demand, savings and noninterest-bearing deposit balances. The Bank focuses on core deposit relationships with consumers from local markets who can maintain multiple accounts and services at the Bank. The Company believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors. As a result, the Bank's core customer relationship strategy has resulted in a higher portion of its deposits being held in NOW and savings accounts at March 31, 2013 than at December 31, 2012 and a lesser portion of deposits being held in brokered and retail time deposits at March 31, 2013 than at December 31, 2012. Furthermore, the Company's core noninterest-bearing demand accounts increased from year-end 2012.

Deposit growth came mostly from the Company's interest-free funding source, noninterest-bearing demand deposits, increasing $73,181, or 52.5%, from year-end 2012. This increase was largely from growth in the Company's business checking accounts, particularly those that serve to facilitate the significant volume of ERC/ERD tax refund items during the first quarter of 2013. The Company is one of a few institutions that provide ERC/ERD processing for a tax software provider. During 2013, this software provider was successful in increasing the volume of its ERC/ERD transactions from the same period in 2012. As a result of the tax processing activity being seasonal, the elevated first quarter balances within the Company's business checking accounts should continue to normalize during the remainder of 2013.

Deposit growth also came from interest-bearing NOW account balances, which increased $12,136, or 11.4%, during the first three months of 2013 as compared to year-end 2012. This growth was largely driven by public fund balances related to the collection of taxes by local municipalities and distributions to local school districts that maintain various deposit accounts (NOW accounts) within the Bank. These deposits from seasonal tax collections are short-term in nature and typically decrease in the second quarter.

Further enhancing deposit growth were the Company's savings account balances, which increased $4,377, or 8.4%, from year-end 2012, coming primarily from the statement savings product. The increase in savings account balances reflects the customer's preference to remain liquid while the opportunity for market rates to rise in the near future still exists. As CD market rates continue to adjust downward, the spread between a short-term CD rate and a statement savings rate has become small enough for the customer to invest balances into a more liquid product, perhaps hoping for rising rates in the near future.

Growth in the Company's interest-bearing, core deposit balances was partially offset by a decrease in the Company's money market accounts, which were down $5,992, or 4.1%, from year-end 2012. The decrease came largely from the Company's Market Watch product. The Market Watch product is a limited transaction investment account with tiered rates that competes with current market rate offerings and serves as an alternative to certificates of deposit for some customers. With an added emphasis on further building and maintaining core deposit relationships, the Company has marketed several attractive incentive offerings in the past several years to draw customers to this particular product. As the terms of these special incentive offerings have ended, the interest rates have adjusted down to current market rates, which has resulted in the decrease in Market Watch balances.

Growth in total deposits was also partially offset by decreases in time deposits from year-end 2012. Historically, time deposits, particularly CD's, had been the most significant source of funding for the Company's earning assets, making up 32.3% of total deposits December 31, 2012. However, these funding sources continue to be less emphasized due to lower market rates and the Company's focus on growing its core deposit balances. As a result, time deposits represented 27.1% of total deposits at March 31, 2013. During the first quarter of 2013, time deposits decreased $16,393, or 7.7%, from year-end 2012. With loan balances down 1.3% from year-end 2012, the Company has not needed to employ aggressive measures, such as offering higher rates, to attract customer investments in CD's. Furthermore, as market rates remain at low levels, the Company has seen the cost of its retail CD balances continue to reprice downward to reflect current deposit rates. As the Company's CD rate offerings have fallen considerably from a year ago, the Bank's CD customers have been more likely to consider re-investing their matured CD balances into other short-term deposit products or with other institutions offering the most attractive rates. This has led to an increased maturity runoff within its "customer relation" retail CD portfolio. Furthermore, with the significant downturn in economic conditions, the Bank's CD customers in general have experienced reduced funds available to deposit with structured terms, choosing to remain more liquid. As a result, the Company has experienced a decrease within its retail CD balances, which were down $9,456 from year-end 2012. The Company's preference of core deposit funding sources has created a lesser reliance on wholesale funding deposits (i.e., brokered and internet CD issuances), which were also down $6,937 from year-end 2012. The Company will continue to evaluate its use of brokered CD's to manage interest rate risk associated with longer-term, fixed-rate asset loan demand.

The Company will continue to experience increased competition for deposits in its market areas, which should challenge its net growth. The Company will continue to emphasize growth in its core deposit relationships during the remainder of 2013.

Other Borrowed Funds

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of Federal Home Loan Bank ("FHLB") advances and promissory notes. During the first quarter of 2013, other borrowed funds increased $167, or 1.2%, from year-end 2012. With net loan demand continuing on a declining pace during 2013, management will consider the use of its retained deposit proceeds from the first quarter's seasonal tax activity to repay FHLB borrowings, as necessary. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize various wholesale borrowings to help manage interest rate sensitivity and liquidity.

30

Subordinated Debentures

The Company received proceeds from the issuance of two trust preferred securities from September 7, 2000 totaling $5,000 at a fixed-rate of 10.6% and March 22, 2007 totaling $8,500 at a fixed-rate of 6.58%. The $8,500 trust preferred security is now at an adjustable rate equal to the 3-month LIBOR plus 1.68%. The Company does not report the securities issued by the trust as liabilities, but instead, reports as liabilities the subordinated debentures issued by the Company and held by the trust. Given the current capital levels and interest cost savings, the Company redeemed the full amount of the $5,000 subordinated debenture on March 7, 2013, at a redemption price of 104.24% or $212. The redemption was funded by a capital distribution from the Bank. The redemption supports the Company's continued emphasis on lowering funding costs to strengthen the net interest margin as average earning assets continue to decline. The Company anticipates an annual interest expense savings of $530, most of which will be recognized in 2013.

Shareholders' Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. At March 31, 2013, the Bank's capital exceeded the minimum requirements to be deemed "well capitalized" under applicable prompt corrective action regulations. Total shareholders' equity at March 31, 2013 of $78,554 increased $2,734, or 3.6%, as compared to the balance of $75,820 at December 31, 2012. Contributing most to this increase was year-to-date net income of $3,223, partially offset by cash dividends paid of $406, or $.10 per share.

Comparison of Results of Operations
for the Three Months Ended
March 31, 2013 and 2012

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the three months ended March 31, 2013 compared to the same period in 2012. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Net Interest Income

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense incurred on interest-bearing liabilities. The Company earns interest and dividend income from loans, investment securities and short-term investments while incurring interest expense on interest-bearing deposits, repurchase agreements and short- and long-term borrowings. Net interest income is affected by changes in both the average volume and mix of assets and liabilities and the level of interest rates for financial instruments. For the first quarter of 2013, net interest income decreased $491, or 5.5%, as compared to the first quarter of 2012. The quarterly decrease was largely due to a decline in lower average earning asset balances, primarily loans, which yielded less interest income.

Total interest and fee income earned on the Company's earning assets decreased $1,185, or 11.1%, during the first quarter of 2013 as compared to the same period in 2012. This drop in earnings came largely from the commercial loan portfolio. The Company experienced lower average balances within the commercial loan portfolio during the first three months of 2013 versus the same period in 2012. This change primarily came from significant charge-offs of underperforming commercial loans, as well as large payoffs of various commercial loans during those periods. These lower loan balances have contributed to a $487, or 14.0%, decrease in commercial interest and fee revenue during the first quarter of 2013 versus the same period in 2012. The Company's average residential real estate loan portfolio decreased during the first three months of 2013 versus the same period in 2012. The decreases in residential real estate loans has been largely the result of management's strategy to sell the majority of its long-term, fixed-rate real estate loans to the secondary market, while retaining the servicing rights to these loans. This action continues to generate loan sale and servicing fee revenue within noninterest income, but has resulted in a $337, or 9.6%, decrease in real estate interest and fee income during the three months ended March 31, 2013, as compared to the same period in 2012. Lower earnings were also impacted by a decrease in consumer loan interest and fees of $337, or 9.6%, during the first three months of 2013 as compared to the same period in 2012. Contributing to this was lower consumer loan average balances during 2013, primarily from auto loan balances, where competition for loan demand continues to be challenged by other financial institutions and captive finance companies.

Further contributing to lower interest and fee income was a decrease in yields earned on average earning assets during the first quarter of 2013 as compared to the same period in 2012. The average yield on earning assets for the three months ended March 31, 2013 decreased 31 basis points to 4.95%, compared to 5.26% during the same period in 2012. The decline in asset yields was impacted mostly by lower market rates.

Total interest expense incurred on the Company's interest-bearing liabilities decreased $694, or 39.6%, during the first quarter of 2013 as compared to the same period in 2012 as a result of lower rates paid on interest-bearing liabilities. The sustained low short-term rates have continued to impact the repricings of various Bank deposit products, especially time deposit balances, which continued to reprice at lower rates during 2013 (as a continued lagging effect to the Federal Reserve action to drop short-term interest rates). The Company also continues to experience a deposit composition shift from a higher level of average time deposits to an increasing level of average core deposit balances. At March 31, 2013, the Company's average time deposit balances, with a weighted average cost of 1.26%, decreased $40,070 as compared to the first quarter average of 2012. This is compared to an average balance increase of $1,968 in the Company's lower costing, core deposit balances, with a weighted average cost of 0.21% at March 31, 2013 as compared to the first quarter average of 2012. As a result of decreases in the average market interest rates and the deposit composition shift to lower costing deposit balances, the Company's total weighted average deposit costs have decreased 26 basis points from 0.76% at March 31, 2012 to 0.50% at March 31, 2013.

During the three months ended March 31, 2013, the decline in asset yields completely offset the decline in funding costs. As a result, the Company's net interest margin lowered to 4.40% during the first quarter of 2013, as compared to 4.41% during the first quarter of 2012. The Company will continue to focus on re-deploying the Federal Reserve balances earning 0.25% into higher yielding instruments as opportunities arise. Earlier in 2012, the Federal Reserve announced it would maintain the current state of low interest rates through 2014 or longer to help boost the economy as its recovery has been short of expectations. However, further decreases in interest rates by the Federal Reserve would have a negative effect on the Company's net interest income, as most of its deposit balances are perceived to be at or near their interest rate floors. The Company will also continue to face pressure on its net interest income and margin improvement unless loan balances begin to expand and become a larger component of overall earning assets. For additional discussion on the Company's rate sensitive assets and liabilities, please see Item 3, Quantitative and Qualitative Disclosure About Market Risk, of this Form 10-Q.

Provision for Loan Losses

Credit risk is inherent in the business of originating loans. The Company sets aside an allowance for loan losses through charges to income, which are reflected in the consolidated statement of income as the provision for loan losses. This provision charge is recorded to achieve an allowance for loan losses that is adequate to absorb losses in the Company's loan portfolio. Management performs, on a quarterly basis, a detailed analysis of the allowance for loan losses that encompasses loan portfolio composition, loan quality, loan loss experience and other relevant economic factors.

Provision expense decreased $1,285, as compared to the same period in 2012. Provision expense decreased in large part due to a decrease in net charge-offs during the first quarter of 2013 as compared to the same period in 2012. This was largely the result of commercial loan adjustments that occurred during the previous year's first quarter. In March 2012, the Company partially charged off $1,118 on various residential real estate and commercial real estate loans. The partial charge-offs required a

32

corresponding impairment charge to provision expense due to a continued deterioration of collateral values.

In addition to lower net charge-offs, provision expense was also impacted by a reduction in general allocations related primarily to economic risk trends. These improving trends have placed less pressure on the economic risk allocation of the allowance for loans losses, resulting in lower provision expense charges during the first quarter of 2013.

Management believes that the allowance for loan losses was adequate at March 31, 2013 to absorb probable losses in the portfolio. The allowance for loan losses was 1.21% of total loans at March 31, 2013, as compared to 1.24% at December 31, 2012. Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

Noninterest Income

Noninterest income for the three months ended March 31, 2013 was $3,940, an increase of $461, or 13.3%, from the same quarterly period in 2012. The increase in noninterest revenue was largely due to the Company's earnings from tax-free bank owned life insurance ("BOLI") investments. BOLI investments are maintained by the Company in association with various benefit plans, including deferred compensation plans, director retirement plans and supplemental retirement plans. During the first quarter of 2013, the Company received $1,249 in cash proceeds from the settlement of two BOLI policies, which yielded net BOLI proceeds of $452 that was recorded to income. This contributed to a quarterly increase of $437, or 225.3%, in BOLI income as compared to the same quarterly period of 2012. As a result of net BOLI proceeds being exempt from tax, the Company's effective tax rate decreased from 29.9% at March 31, 2012 to 26.4% at March 31, 2013.

The successful growth in noninterest revenue was also impacted by increased seasonal tax refund processing fees classified as ERC/ERD fees. During the three months ended March 31, 2013, the Company's ERC/ERD fees increased by $67, or 3.3%, as compared to the same quarterly period in 2012. The increase was due to a volume increase in the number of ERC/ERD transactions that were processed during the first three months of 2013. Management continues to be pleased with the significant contribution this revenue source made, accounting for 53.4% of total noninterest income during the first quarter of 2013.As a result of ERC/ERD fee activity being mostly seasonal, the majority of income will be recorded during the first half of 2013, with only minimal income expected during the second half of 2013.

Further improvements to noninterest revenue came from growth in debit and credit interchange income, which increased $57, or 14.4%, during the first quarter of 2013, as compared to the same period in 2012. The volume of transactions utilizing the Company's credit card and Jeanie® Plus debit card continue to increase from a year ago. Beginning in the second half of 2010, the Company began offering incentive based credit cards that would permit its users to redeem accumulated points for merchandise, as well as cash incentives paid, particularly to business users based on transaction criteria. In addition, similar incentives were introduced to the Company's Jeanie® Plus debit cards during the first quarter of 2011 to promote customer spending. While incenting debit/credit card customers has increased customer use of electronic payments, which has contributed to higher interchange revenue, the strategy also fits well with the Company's emphasis on growing and enhancing its customer relationships.

Noninterest revenue improvement was also driven by higher mortgage banking income affected by an increase in the volume of real estate loans sold to the secondary market in order to satisfy consumer demand. The decision to sell long-term fixed-rate mortgages at lower rates also helps to minimize the interest rate risk exposure to rising rates. During the first quarter of 2013, the Company experienced an increase in mortgage banking income of $40, or 41.2%, as compared to the same period in 2012.

The increases in noninterest income mentioned above were partially offset by a decrease in the net gains of other real estate owned (“OREO”) properties, which was down $73, or 912.5%, during the first quarter of 2013, as compared to the same period in 2012. Lower net gains on OREO was impacted mostly by a $43 net loss realized during the first quarter of 2013 on the sale of one piece of commercial real estate property classified as OREO. The Company's other noninterest income category was down $43, or 17.3%, during the first quarter of 2013, as compared to the same period in 2012, due mostly to gains recorded on the sale of land in Jackson, Ohio during the first quarter of 2012. The Company also experienced less income from service charges on deposit accounts, which decreased $26, or 5.8%, during the first quarter of 2013, as compared to the same period in 2012. This decrease was in large part due to lower overdraft fees.

Noninterest Expense

Noninterest expense during the first quarter of 2013 increased $616, or 8.4%, as compared to the same period in 2012. Contributing to the growth in net overhead expense were higher salaries and employee benefits, foreclosed asset costs and a one-time trust preferred security redemption fee.

The Company's largest noninterest expense item, salaries and employee benefits, increased $171, or 4.0%, during the first quarter of 2013, as compared to the same period in 2012. The increase was largely due to annual merit increases and higher retirement benefit costs.

Further impacting noninterest expense was a $212 fee to redeem one of the Company's trust preferred securities during the first quarter of 2013. On September 7, 2000, the Company received proceeds from the issuance of a $5,000 trust preferred security at a 10.6% fixed-rate. The Company issued a subordinated debenture to the trust in exchange for the proceeds of the offering. Given the current capital levels and potential for interest expense savings, the Company redeemed the full amount of the $5,000 subordinated debenture on March 7, 2013. The Company anticipates an annual interest expense savings of $530, most of which will be recognized in 2013.

Also contributing to additional noninterest expense during the first quarter of 2013 were foreclosed asset costs, which totaled $295 during the first quarter of 2013, compared to $110 during the first quarter of 2012. The increase was related to various commercial real estate properties. Foreclosure expenses include the taxes and general maintenance costs related to the properties.

Partially offsetting the impact of overhead expense increases during the first quarter of 2013 was a $147, or 50.5%, decrease in FDIC premium expense as compared to the first quarter of 2012. Beginning April 1, 2011, the assessment base for deposit insurance premiums changed from total domestic deposits to average total assets minus average tangible equity, and the assessment rate schedules changed. The new assessment method has afforded the Company lower net premium assessments. While the Company has benefited from these changes in calculation methods, continued declines in the Deposit Insurance Fund could result in the FDIC imposing assessments in the future, which could adversely affect the Company's capital levels and earnings.

The net change in the remaining noninterest expense categories increased $195, or 7.3%, during the first quarter of 2013, as compared to the same period in 2012. This includes general increases in various overhead categories such as incentive costs on customer relationship accounts, supplies, postage, and cosnsulting fees.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity as well as developing more innovative ways to generate noninterest revenue. However, revenue levels were negatively affected by lower net interest income due to decreasing average earning assets combined with higher overhead expenses. As a result, overhead expense for 2013 has outpaced revenue levels, causing the year-to-date efficiency ratio to worsen from the prior period. The efficiency ratio during the first quarter of 2013 increased to 63.7% from 58.7% during the first quarter of 2012.

Capital Resources

All of the Company's capital ratios exceeded the regulatory minimum guidelines as identified in the following table:

	Company Ratios				Regulatory Minimum	
	3/31/13		12/31/12			
Tier 1 risk-based capital	15.8	%	16.0	%	4.00	%
Total risk-based capital ratio	17.1	%	17.2	%	8.00	%
Leverage ratio	10.1	%	10.9	%	4.00	%

Cash dividends paid of $406 during the first three months of 2013 represent a 52.0% decrease compared to the cash dividends paid during the same period in 2012. The quarterly dividend rate in 2013 was $0.10 per share, down from $0.21 per share paid in 2012. The Company declared and paid in December 2012 a $0.21 per share dividend that normally would have been paid during the first quarter of 2013, as a result of potential changes in tax rates affecting shareholders in 2013. The Company proceeded to pay a "special" $0.10 per share dividend during the first quarter of 2013 due to the Company's stable capital position and financial performance.

Liquidity

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, held to maturity securities maturing within one year and available for sale securities, totaling $214,887, represented 25.7% of total assets at March 31, 2013. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At March 31, 2013, the Bank could borrow an additional $173,155 from the FHLB, of which $95,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At March 31, 2013, this line had total availability of $40,771. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank. For further cash flow information, see the condensed consolidated statement of cash flows. Management does not rely on any single source of liquidity and monitors the level of liquidity based on many factors affecting the Company's financial condition.

Off-Balance Sheet Arrangements

As discussed in Note 5 – Financial Instruments with Off-Balance Sheet Risk, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note A to the financial statements in the Company's 2012 Annual Report to Shareholders. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on

35

subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the adequacy of the allowance for loan losses to be a critical accounting policy.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans generally consist of loans with balances of $200 or more on nonaccrual status or nonperforming in nature. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and impaired loans that are not individually reviewed for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial Real Estate, Commercial and Industrial, Residential Real Estate, and Consumer.

Commercial and industrial loans consist of borrowings for commercial purposes to individuals, corporations, partnerships, sole proprietorships, and other business enterprises. Commercial and industrial loans are generally secured by business assets such as equipment, accounts receivable, inventory, or any other asset excluding real estate and generally made to finance capital expenditures or operations. The Company’s risk exposure is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. Generally, business assets used or produced in operations do not maintain their value upon foreclosure, which may require the Company to write-down the value significantly to sell.

Commercial real estate consists of nonfarm, nonresidential loans secured by owner-occupied and nonowner-occupied commercial real estate as well as commercial construction loans. An owner-occupied loan relates to a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing business operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans that are dependent on cash flows from operations can be adversely affected by current market conditions for their product or service. A nonowner-occupied loan is a property loan for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property. Nonowner-occupied loans that are dependent upon rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial construction loans consist of borrowings to purchase and develop raw land into one- to four-family residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by the Company.

Residential real estate loans consist of loans to individuals for the purchase of one- to four-family primary residences with repayment primarily through wage or other income sources of the individual borrower. The Company’s loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 5 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. During the last several years, one of the most significant portions of the Company’s net loan charge-offs have been from consumer loans. Nevertheless, the Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

Concentration of Credit Risk

The Company maintains a diversified credit portfolio, with residential real estate loans currently comprising the most significant portion. Credit risk is primarily subject to loans made to businesses and individuals in southeastern Ohio and western West Virginia. Management believes this risk to be general in nature, as there are no material concentrations of loans to any industry or consumer group. To the extent possible, the Company diversifies its loan portfolio to limit credit risk by avoiding industry concentrations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company’s goal for interest rate sensitivity management is to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations. Interest rate risk (“IRR”) is the exposure of the Company’s financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability, but excessive levels of IRR can threaten the Company’s earnings and capital.

The Company evaluates IRR through the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The modeling process starts with a base case simulation, which assumes a static balance sheet and flat interest rates. The base case scenario is compared to rising and falling interest rate scenarios assuming a parallel shift in all interest rates. Comparisons of net interest income and net income fluctuations from the flat rate scenario illustrate the risks associated with the current balance sheet structure.

The Company's Asset/Liability Committee monitors and manages IRR within Board approved policy limits. The current IRR policy limits anticipated changes in net interest income to an instantaneous increase or decrease in market interest rates over a 12 month horizon to +/- 5% for a 100 basis point rate shock, +/- 7.5% for a 200 basis point rate shock and +/- 10% for a 300 basis point rate shock. Based on the level of interest rates, management did not test interest rates down 200 or 300 basis points.

The following table presents the Company's estimated net interest income sensitivity:

Change in Interest Rates in Basis Points	March 31, 2013 Percentage Change in Net Interest Income	December 31, 2012 Percentage Change in Net Interest Income
+300	4.02%	(3.20%)
+200	2.92%	(1.87%)
+100	1.60%	(.80%)
-100	(2.97%)	(2.32%)

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. With the historical low interest rate environment, management generally has been focused on limiting the duration of assets, while trying to extend the duration of our funding sources to the extent customer preferences will permit us to do so. At March 31, 2013, the interest rate risk profile reflects an asset sensitive position, which produces higher net interest income due to an increase in interest rates. This is a change from the liability sensitive position at year end. Contributing to the change in interest rate risk profile was the significant increase in liquidity due to tax refund processing. The additional liquidity is maintained in our account at the Federal Reserve and the interest rate is highly correlated to any rate change implemented by the Federal Reserve as part of its monetary policy. Since the balances associated with tax refund processing are seasonal, management expects a portion of the balances maintained at the Federal Reserve to decline in subsequent quarters, which will reduce or eliminate our asset sensitive position. In a declining rate environment, net interest income is impacted by the interest rate on many deposit accounts not being able to adjust downward. With interest rates so low, deposit accounts are perceived to be at or near an interest rate floor. The current interest rate risk profile reflects minimal exposure to interest rate changes and is within ranges established by management.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and the Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, Ohio Valley's Chief Executive Officer and Vice President and Chief Financial Officer have concluded that Ohio Valley's disclosure controls and procedures are effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is accumulated and communicated to Ohio Valley's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Ohio Valley's fiscal quarter ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in Ohio Valley's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on March 18, 2013 and available at www.sec.gov. These risk factors could materially affect the Company's business, financial condition or future results. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by any director, officer, employee or other representative of the Company unless and until any such revisions or updates are expressly required to be disclosed by applicable securities laws or regulations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Ohio Valley did not purchase any of its shares during the three months ended March 31, 2013.

Ohio Valley did not sell any unregistered equity securities during the three months ended March 31, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits:
Reference is made to the Exhibit Index set forth immediately following the signature page of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OHIO VALLEY BANC CORP.

Date: May 10, 2013	By:	/s/ Thomas E. Wiseman Thomas E. Wiseman President and Chief Executive Officer
Date: May 10, 2013	By:	/s/ Scott W. Shockey Scott W. Shockey Vice President and Chief Financial Officer

40

EXHIBIT INDEX

The following exhibits are included in this Form 10-Q or are incorporated by reference as noted in the following table:

Exhibit Number	Exhibit Description
3(a)	Amended Articles of Incorporation of Ohio Valley (reflects amendments through April 7, 1999) [for SEC reporting compliance only - - not filed with the Ohio Secretary of State]. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2007 (SEC File No. 0-20914).
3(b)	Code of Regulations of Ohio Valley (as amended by the shareholders on May 12, 2010): Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (SEC File No. 0-20914).
4	Agreement to furnish instruments and agreements defining rights of holders of long-term debt: Filed herewith.
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer): Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer): Filed herewith.
32	Section 1350 Certifications (Principal Executive Officer and Principal Accounting Officer): Filed herewith.
101.INS*	XBRL Instance Document: Filed herewith.*
101.SCH*	XBRL Taxonomy Extension Schema: Filed herewith.*
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase: Filed herewith.*
101.DEF*	XBRL Taxonomy Extension Definition Linkbase: Filed herewith.*
101.LAB*	XBRL Taxonomy Extension Label Linkbase: Filed herewith.*
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase: Filed herewith.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

41